



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 03/01/05

AGENDA ITEM _____

WORK SESSION ITEM WSS #2 (2)

TO: Mayor and City Council
FROM: Acting Director of Finance and Internal Services
SUBJECT: Mid-Year Budget Review

RECOMMENDATION:

It is recommended that the City Council review and comment on this report.

BACKGROUND:

The report which follows reviews General Fund actual financial results for 2003-04 and the status of the General Fund at the mid-year point for 2004-05. The report begins with an analysis of fiscal year 2003-04 and how the results for the year impact the current fiscal year's budget. Following that discussion is a review of the General Fund budget at the mid-year for 2004-05.

Fiscal Year 2003-04

Last Spring, the Council was advised that expenditures would exceed revenues in the General Fund by about \$6.2 million. The Council authorized the use of contingency funds to balance the budget. As 2003-04 came to a close it became apparent that costs would be contained in the General Fund and that the fiscal year would end in a slightly better position than originally budgeted. The final audit reveals that at the end of FY 2003-04 the City did experience a shortfall. However, the shortfall was less than previously reported to Council. More specifically, actual revenue and transfers-in came to \$88.6 million and expenditures were \$94.4 million resulting in a revenue short fall of \$5.8 million.

The importance of the reduced use of contingency reserves for 2003-04 is to make available to future budget years a larger contingency reserve. This information is shown in Schedule B attached which begins with the audited fund balance at June 30, 2004.

Fiscal Year 2004-05

Staff has analyzed General Fund revenues and expenditures for 2004-05 through December 31, 2004 and is pleased to report that it appears that several revenue sources will exceed budget for the year. When Council adopted the budget for 2004-05 it authorized the use of approximately \$3.1 million in contingency funds to balance the budget. Based on staff's revised estimates it now

appears the use of these funds will not be necessary, and that the General Fund will essentially "break even" for 2004-05. This information is shown on Schedule A, attached.

Revenues

The schedule below is the Revenue section of Attachment Schedule A, which is shown here for convenience. The Actual 2003-04 column presents prior year actual information for reference and comparison purposes. The Adjusted Budget 2004-05 column is the adopted budget with any Council authorized changes through December 31, 2004. The Estimated 2004-05 column is staff's estimated revenues based on updated information through December 31, 2004. The Variance column indicates the differences, positive or negative, between the Adjusted Budget and the Estimated columns.

	Actual 2003-04	Adjusted Budget 2004-05	Estimated 2004-05	Variance Positive (Negative)
REVENUES				
Property Tax	\$ 19,577	\$ 19,105	\$ 19,605	\$ 500
Sales Tax	-	-	-	-
Sales Tax	25,413	20,250	20,250	-
State Backfill	-	6,250	6,250	-
	25,413	26,500	26,500	-
Real Property Trsf. Tax	6,869	6,300	7,000	700
Emergency Facilities Tax	1,593	1,700	1,700	-
Bldg. Const. & Imp. Tax	1,349	1,200	1,200	-
All Other Taxes	3,191	3,300	3,300	-
Franchises	5,588	6,822	6,822	-
Licenses & Permits	3,501	3,298	3,534	236
Interest & Rents	379	851	411	(440)
Fines & Forfeitures	962	887	1,668	781
VLF				
VLF	6,445	8,400	1,383	(7,017)
State Backfill		-	7,715	7,715
	6,445	8,400	9,098	698
All Other From Agencies	2,677	2,135	2,803	668
Fees and Service Charges	2,604	2,531	2,484	(47)
Other Revenue	2,925	2,738	2,781	43
Total Operating Revenue	\$ 83,073	\$ 85,767	\$ 88,906	\$ 3,139

The first revenue estimate concerns Property Tax. This estimate is based on the County's most recent revenue estimates for Hayward for fiscal year 2004-05. This increase is reflected in the County and City's assessed valuation base, which is the basis for property tax revenue. Not surprisingly, this revenue continues to show steady growth.

The next category is Real Property Transfer Tax. This tax is collected on all real estate transactions closing in the City and directly reflects both the number of real estate sales that are taking place and the value of the property being sold. The current year's estimate takes into

account both total revenue remitted to date and the monthly remittance pattern. Consequently, based on revenue collected through December 31, 2004 staff is increasing the estimate for this revenue from \$6.3 million to \$7 million.

The next revenue category is Licenses and Permits. This category is being increased to reflect collections to date. As can be seen by reference to the 2003-04 Actual column the revised estimate is in line with revenues collected in the prior year. It appears that this revenue category was under budgeted originally.

Due to low interest rates, and less funds to invest, investment earnings will not meet budget for the year. Staff is decreasing this revenue from \$851,000 to \$411,000.

The next revenue category to be adjusted is Fines and Forfeitures. Several parking and traffic violation fines go into a separate Parking Fund. Then as revenues accumulate in this fund they are transferred to the General Fund. Staff will be transferring approximately \$800,000 from the Parking Fund into the General Fund for 2004-05. This transfer is in addition to ongoing transfers to the General Fund and represents "one-time" revenues

There are two remaining significant revenue adjustments for 2004-05. One is for the Vehicle License Fee (VLF) and the other is for All Other From Agencies. The VLF is being increased to recognize a timing difference in the way VLF is paid to the City. As result of the Triple Flip and the State's 2004-05 Budget, the City will receive, on a cash basis, an additional \$698,000 in 2004-05. This difference will not repeat in 2005-06 and beyond. The other category, All Other From Agencies is being increased to reflect the receipt of grants which had not been budgeted for 2004-05. The receipt of the grants was uncertain at the time the 2004-05 budget was prepared and as a conservative measure the grants were not originally budgeted.

Expenditures

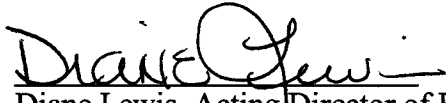
	Actual 2003-04	Adjusted Budget 2004-05	Estimated 2004-05	Variance Positive (Negative)
Expenditures				
Employee Services	\$ 78,667	\$ 79,066	\$ 79,066	\$ -
Maintenance & Utilities	4,146	3,894	3,894	\$ -
Supplies and Services	9,849	9,692	9,692	\$ -
Capital Expense	243	75	75	\$ -
Net Interdept. Charges (Credits)	(3,470)	(3,694)	(3,694)	\$ -
	<u>\$ 89,435</u>	<u>\$ 89,033</u>	<u>\$ 89,033</u>	<u>\$ -</u>

As can be seen from the schedule above expenditures are expected to meet budget for 2004-05. Through December 31, Employee Services were at 52% of budget, slightly ahead of the time elapsed percentage of 50% due to one time retirement payouts that will not be repeating throughout the balance of the year. The expenditure categories of Maintenance and Utilities and Supplies and Services were at 48% and 43% of budget respectively. In view of historical expenditure patterns staff anticipates that these categories will not exceed budget for the fiscal


year. Finally, Capital Expense and Net Interdepartmental Charges (Credits) are on target for the year. Consequently, staff is recommending no change to budgeted expenditures for 2004-05.

In summary, the City's General Fund is seeing the impact of a steady economy, a strong real estate market and costs that are under control. These factors are allowing staff to revise the General Fund budget from one that originally contemplated a revenue shortfall of approximately \$3.1 million to a very slight deficit or a break even for the year.

Recommended by:


Diane Lewis, Acting Director of Finance and Internal Services

Approved by:


Jesús Armas, City Manager

City of Hayward
Mid-Year Budget Review
Schedule of Revenues and Expenditures
General Fund – 2004-05

Schedule A

	(\$000's)			
	Actual 2003-04	Adjusted Budget 2004-05	Estimated 2004-05	Variance Positive (Negative)
REVENUES				
Property Tax	\$ 19,577	\$ 19,105	\$ 19,605	\$ 500
Sales Tax		-	-	-
Sales Tax Revenue	25,413	20,250	20,250	-
State Backfill		6,250	6,250	-
	25,413	26,500	26,500	-
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Supp. Bldg. Const. & Imp. Tax	1,349	1,200	1,200	-
All Other Taxes	3,191	3,300	3,300	-
Franchises	5,588	6,822	6,822	-
Licenses and Permits	3,501	3,298	3,534	236
Interest and Rents	379	851	411	(440)
Fines and Forfeitures	962	887	1,668	781
Vehicle License Fee				-
VLF	6,446	8,400	1,383	(7,017)
State Backfill		-	7,715	7,715
	6,446	8,400	9,098	698
All Other From Agencies	2,676	2,135	2,804	669
Fees and Service Charges	2,604	2,531	2,484	(47)
Other Revenue	2,924	2,738	2,780	42
Total Revenue	83,072	85,767	88,906	3,139
Recurring Transfers In	5,218	4,965	4,965	-
Encumbrances		-	-	-
Total Resources	\$ 88,290	\$ 90,732	\$ 93,871	\$ 3,139
EXPENDITURES				
Employee Services	78,667	79,066	79,066	-
Maintenance and Utilities	4,146	3,894	3,894	-
Supplies and Services	9,849	9,692	9,692	-
Capital Expense	243	75	75	-
Net Interdept. Charges (Credits)	(3,470)	(3,694)	(3,694)	-
Operating Expenditures	89,435	89,033	89,033	-
Recurring Transfers Out	4,627	4,869	4,869	-
Total Expenditures	94,062	93,902	93,902	-
Net Operating Revenue (Expenditure)	(5,772)	(3,170)	(31)	3,139
Non-recurring Transfers In	-	-	-	-
Non-recurring Transfers (Out)	-	-	-	-
Net Revenue (Expenditure)	\$ (5,772)	\$ (3,170)	\$ (31)	\$ 3,139

City of Hayward
Reserves and Designated Fund Balances
June 30, 2004 and Projected June 30, 2005

Schedule B

Balances Adopted with 2004-05 Budget

	Estimated 2003-04	Adopted 2004-05
Reserved For:		
Encumbrances	\$ 1,147,000	1,147,000
Inventory	119,828	119,828
Advances	1,336,000	1,336,000
	<u>\$ 2,602,828</u>	<u>\$ 2,602,828</u>
Designated for:		
Economic uncertainty	7,000,000	7,000,000
Liquidity	3,500,000	3,500,000
Public Safety Radio System	2,250,000	2,250,000
Hotel/Conference Center	1,250,000	1,250,000
Contingencies	4,905,209	1,833,524
	<u>\$ 18,905,209</u>	<u>\$ 15,833,524</u>
Total Designated Fund Balance	<u>\$ 18,905,209</u>	<u>\$ 15,833,524</u>
Total Fund Balance	<u><u>\$ 21,508,037</u></u>	<u><u>\$ 18,436,352</u></u>

Balances Based on Audit and Projected for 2004-05

	Actual Balance 6/30/2004	Projected Balance 6/30/2005
Reserved For:		
Encumbrances	\$ 804,630	\$ 804,630
Inventory	108,723	108,723
Advances	1,336,000	1,336,000
	<u>\$ 2,249,353</u>	<u>\$ 2,249,353</u>
Designated for:		
Economic uncertainty	7,000,000	7,000,000
Liquidity	3,500,000	3,500,000
Public Safety Radio System	2,250,000	2,250,000
Hotel/Conference Center	1,250,000	1,250,000
Contingencies	5,647,427	5,616,427
	<u>\$ 19,647,427</u>	<u>\$ 19,616,427</u>
Total Designated Fund Balance	<u>\$ 19,647,427</u>	<u>\$ 19,616,427</u>
Total Fund Balance	<u><u>\$ 21,896,780</u></u>	<u><u>\$ 21,865,780</u></u>